MONTHLY BUDGET REVIEW

Fiscal Year 2006

A Congressional Budget Office Analysis

Based on the *Monthly Treasury Statement* for December
and the *Daily Treasury Statements* for January

February 6, 2006

The federal government ran a deficit of $95 billion in the first four months of fiscal year 2006, CBO estimates, about $15 billion less than in the same period last year. Assuming enactment of additional funding for flood insurance and for ongoing military operations in Iraq and Afghanistan, but no other legislation affecting spending or revenues, CBO expects that the federal government will end 2006 with a deficit in the vicinity of $355 billion. (This estimate reflects the recent Congressional approval of the Deficit Reduction Act of 2005.)

DECEMBER RESULTS
(Billions of dollars)

	Preliminary Estimate	Actual	Difference
Receipts	242	242	-1
Outlays	231	231	*
Surplus	12	11	-1

Sources: Department of the Treasury; CBO.
Note: * = between zero and $500 million.

The Treasury Department reported a surplus of $11 billion for December, about $1 billion less than CBO projected on the basis of the *Daily Treasury Statements*. Most of that difference was due to lower-than-estimated revenues from corporate income taxes.

ESTIMATES FOR JANUARY
(Billions of dollars)

	Actual FY2005	Preliminary FY2006	Estimated Change
Receipts	202	231	28
Outlays	194	206	12
Surplus	9	24	16

Sources: Department of the Treasury; CBO.

The federal government posted a $24 billion surplus in January, CBO estimates, $16 billion more than the $9 billion surplus recorded in the same month last year.

CBO estimates that receipts in January increased by about $28 billion, or 14 percent, compared with receipts in January 2005. More than half of that dollar increase stemmed from withholding for individual income and social insurance (payroll) taxes, which increased by $15 billion, or more than 11 percent. In addition, receipts in January from nonwithheld income and payroll taxes, mainly from the last quarterly payments by individuals of estimated taxes for 2005, rose by about $9 billion, or 18 percent. That percentage increase is very similar to the gains recorded for the previous three quarterly payments for 2005, and it probably indicates strong increases in incomes other than wages and salaries.

Outlays in January were $12 billion, or 6 percent, higher than in the same month last year, CBO estimates. Between $5 billion and $6 billion of that total was due to flood insurance and disaster assistance payments related to Hurricanes Katrina and Rita. Medicare outlays were nearly $8 billion higher than in January 2005, but $2 billion of that gain was due to calendar-related shifts in the timing of payments to health care plans. Some of those increases were offset by a difference in the timing of more than $3 billion in aid payments to Israel and Egypt; last year they were made in January, this year they were made in December.

BUDGET TOTALS THROUGH JANUARY
(Billions of dollars)

	Actual FY2005	Preliminary FY2006	Estimated Change
Receipts	689	761	71
Outlays	799	856	57
Deficit (-)	-109	-95	15

Sources: Department of the Treasury; CBO.

CBO estimates that the federal government recorded a deficit of $95 billion for the first four months of fiscal year 2006, about $15 billion less than in the same period last year. The gap between spending and revenues is expected to widen in the coming months, resulting in a projected deficit for the year of around $355 billion—$37 billion higher than the $318 billion shortfall recorded in 2005. A slowing in the pace of revenue growth and the added costs of Medicare's new prescription drug benefit are expected to account for much of the year-over-year increase in the deficit in the coming months.

Note: Unless otherwise indicated, the figures in this report include the Social Security trust funds and the Postal Service fund, which are off-budget. Numbers may not add up to totals because of rounding.

RECEIPTS THROUGH JANUARY
(Billions of dollars)

Major Source	Actual FY2005	Preliminary FY2006	Percentage Change
Individual Income	325	361	11.3
Corporate Income	71	89	25.4
Social Insurance	245	257	5.0
Other	49	53	9.2
Total	689	761	10.4

Sources: Department of the Treasury; CBO.

Receipts for the first four months of fiscal year 2006 were higher by $71 billion, or 10.4 percent, than receipts for the same period of last year, CBO estimates. More than half of the increase, or $38 billion, was generated by higher withholding from employees' paychecks for individual income and payroll taxes. Withholding for the four months grew by 7.5 percent compared with year-ago levels, which is higher than the 6.3 percent growth recorded during fiscal year 2005. The higher growth so far this year, which was especially apparent in late December and in January, may at least in part reflect higher annual bonuses paid in those months.

Nonwithheld payments of individual income and social insurance taxes were higher by about $10 billion, or 14 percent, during this period. That increase stemmed almost entirely from quarterly estimated payments of individual income taxes in January.

Receipts from corporate income taxes grew by $18 billion, or about 25 percent, during the first four months of the fiscal year. Almost all of that increase reflects higher quarterly estimated payments in December. Corporate receipts grew strongly throughout calendar year 2005 as a result of substantial growth in profits and the expiration of certain business tax incentives at the beginning of the year.

For the entire fiscal year, CBO projects, revenues will grow by 7.4 percent—assuming that current laws remain the same. Individual income tax receipts are expected to grow by 8.2 percent, corporate income tax receipts by 8.6 percent, and social insurance tax receipts by 5.5 percent. CBO's estimates assume that growth in corporate income tax receipts will slow dramatically in the remaining months of the fiscal year, consistent with an expected slowdown in the growth of profits from the sharp increases seen in recent years. CBO also expects slower growth in individual income tax receipts, which will reflect economic activity during calendar year 2006.

OUTLAYS THROUGH JANUARY
(Billions of dollars)

Major Category	Actual FY2005	Preliminary FY2006	Percentage Change: Actual	Percentage Change: Adjusted[a]
Defense—Military	151	164	8.4	6.6
Social Security Benefits	167	177	5.9	5.9
Medicare	105	113	7.7	11.9
Medicaid	59	61	3.3	3.3
Other Programs and Activities	259	269	4.0	8.9
Subtotal	741	784	5.8	7.6
Net Interest on the Public Debt	58	72	23.5	23.5
Total	799	856	7.1	8.8

Sources: Department of the Treasury; CBO.

a. Excludes the effects of payments that were shifted because of weekends or holidays, or because of accounting changes.

Outlays through January were about 7 percent higher than in the first four months of 2005, CBO estimates. Excluding calendar-related effects on the timing of certain payments, spending rose by nearly 9 percent over that period. CBO expects outlays to grow by about 8 percent this fiscal year, assuming that additional funding is provided to pay flood insurance claims and to finance ongoing military operations in Iraq and Afghanistan.

Medicare spending rose more quickly in the first four months of this year than in all of fiscal year 2005, increasing by 12 percent through January compared with 10 percent last year. The new prescription drug benefit has had little effect on outlays so far this year, but those costs are expected to accelerate in the months ahead.

Outlays through January for the category "other programs and activities" were almost 9 percent higher than in the same period last year, CBO estimates, largely because of the additional $20 billion spent for flood insurance and disaster assistance. Spending by the Department of Agriculture was about $5 billion higher than in the first four months of 2005, but that increase was offset by higher receipts for Medicare premiums and lower spending for various other programs.

Net outlays for interest on the public debt were about 24 percent higher than in the first four months of 2005 because of increases in short-term interest rates, the higher rate of inflation (which affects the cost of inflation-indexed securities), and the growing amount of federal debt.

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